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July 16, 1997

Mr. David S. Guzy
Chief, Rules and Procedures Staff
Minerals Management Service
Royalty Management Program
P O Box 25165 MS3101
Denver CO 80225-0165

RE: Amendment to Gas Valuation Regulations for Federal Leases, 62 Fed. Req. 19536 (April 22, 1997)

Dear Mr. Guzy:

The Council of Petroleum Accountant's Societies (COPAS) appreciates the opportunity to comment on the MMS' withdrawal of the proposed rule and request for comments on supplemental information related to gas valuation on federal leases. COPAS members have extensive experience with Royalty Management Program (RMP) rules and handle royalty valuation, allowances, adjustments, bills, audits, and other royalty matters on a regular basis. Therefore, we believe our comments will be beneficial in improving RMP processes for both the MMS and industry.

General Comments

MMS, States, and industry spent considerable time and expense during the Federal Gas Valuation Negotiated Rulemaking (Reg-Neg) process and COPAS is deeply disappointed with MMS' withdrawal of the proposed rule. COPAS does not believe that the current gas valuation regulations properly address today's complex gas marketing situations. During the Reg-Neg meetings, the States and MMS both stated that auditing under the current regulations was difficult, at best, and agreed with industry that the determination of "gross proceeds" was an ever increasing problem for sales far downstream of the lease.

One of the reasons MMS cited for withdrawing the proposed rule is that the gas market is still undergoing dramatic change. It should be noted that gas market has been undergoing change since the mid 1980's and is going to continue to change. One of the most positive aspects of the alternative valuation method is that it established a valuation point and a value at that point that accommodates changing market conditions and so would not have an impact on the determination of royalty value.

COPAS National Office P.O. Box 1190 Denison, TX 75021-1190
Phone: (903) 463-5463 FAX: (903) 463-5473

COPAS would like to make a couple of comments regarding the cost/benefit analysis performed by MMS which indicated a loss in revenue of approximately $20 million annually. First, we can not see that MMS included any administrative cost savings for the agency into the calculation. Second, there was a group composed of MMS, State, and industry representative formed during Reg Neg that was charged with reviewing the revenue neutrality issue. The data that group reviewed, while not getting a match with the indices in all areas analyzed, did not indicate the disparity in value that MMS is stating.

Specific Comments

First and Second Option - MMS has not provided enough detail for COPAS to determine if we could support either option, but COPAS is willing to discuss either option with MMS. As was stated earlier, COPAS does not believe that the current regulations work in today's gas marketing environment and we are willing to discuss possible solutions to the many problems associated with the current regulations.

Again, COPAS thanks MMS for the opportunity to comment. If you have any questions, please contact me at (405) 767-5044.

Sincerely,

John Clark

John E. Clark
Chairman, COPAS Federal Affairs Subcommittee

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cc:
Larry Monzingo
Bill Stone
Mary Stonecipher
COPAS Federal Affairs Subcommittee